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S.A.M. Editorial

Coming Events

ADVANCED Management

Progress Through Enlightened Management

CONTENTS

Small Management Obstacles in Small Firms by Edward Wisnewsky Manufacturing entrepreneurs—often advanced technically—sometimes resist scientific management principles and modern marketing programs to their own detriment. Making Small Business Grow by Wilmar F. Bernthal and John T. Doutt and John T. Doutt Some observations put forth to help small manufacturers gain insight into their "growing pains". New Management Practices for the Small Organization by David E. Olsson A small hospital, faced with rapid expansion, develops for itself "management by objectives and self-control"—with tangible results. Humanizing Relationships in a Small Business by Edwin A. Fleishman assisted by James A. Salter Preliminary study points up that concepts like empathy, self-awareness, and social sensitivity need relating to supervisors' attitudes in action. S.B.A. Services for Small Business by Edward L. Anthony, II. 2 Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications—all designed for management progress through facts. Organizing for Data Processing Systems by Lowell H. Hattery Professor Hattery emphasizes the importance of properly assigning the data processing function.	i ne Si	mall Business — Ubiquitous Pariah by Karl Bostrom Steps are presented to offset thinking big in government, education and business itself at the expense of owner-management, basic to our society.	4
Manufacturing entrepreneurs—often advanced technically—sometimes resist scientific management principles and modern marketing programs to their own detriment. Making Small Business Grow	Small	Management Obstacles in	
Some observations put forth to help small manufacturers gain insight into their "growing pains". New Management Practices for the Small Organization	Small	Manufacturing entrepreneurs — often advanced technically — sometimes resist scientific management principles and modern marketing programs to their own	8
New Management Practices for the Small Organization by David E. Olsson A small hospital, faced with rapid expansion, develops for itself "management by objectives and self-control" — with tangible results. Humanizing Relationships in a Small Business by Edwin A. Fleishman. I assisted by James A. Salter Preliminary study points up that concepts like empathy, self-awareness, and social sensitivity need relating to supervisors' attitudes in action. S.B.A. Services for Small Business by Edward L. Anthony, II. 2 Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications — all designed for management progress through facts. Organizing for Data Processing Systems by Lowell H. Hattery 2 Professor Hattery emphasizes the importance of properly assigning the data processing function.	Makin		11
A small hospital, faced with rapid expansion, develops for itself "management by objectives and self-control" — with tangible results. Humanizing Relationships in a Small Business			
A small hospital, faced with rapid expansion, develops for itself "management by objectives and self-control" — with tangible results. Humanizing Relationships in a Small Business	New M	lanagement Practices for the	
A small hospital, faced with rapid expansion, develops for itself "management by objectives and self-control" — with tangible results. Humanizing Relationships in a Small Business			14
Small Business		A small hospital, faced with rapid expansion, develops for itself "management	
assisted by James A. Salter Preliminary study points up that concepts like empathy, self-awareness, and social sensitivity need relating to supervisors' attitudes in action. S.B.A. Services for Small Business	Huma	nizing Relationships in a	
S.B.A. Services for Small Business by Edward L. Anthony, H. 2 Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications — all designed for management progress through facts. Organizing for Data Processing Systems by Lowell H. Hattery Professor Hattery emphasizes the importance of properly assigning the data processing function.	Small		18
Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications—all designed for management progress through facts. Organizing for Data Processing Systems by Lowell H. Hattery Professor Hattery emphasizes the importance of properly assigning the data processing function.		Preliminary study points up that concepts like empathy, self-awareness, and social sensitivity need relating to supervisors' attitudes in action.	
Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications—all designed for management progress through facts. Organizing for Data Processing Systems by Lowell H. Hattery Professor Hattery emphasizes the importance of properly assigning the data processing function.	S.B.A.	. Services for Small Business by Edward L. Anthony, II.	2
Professor Hattery emphasizes the importance of properly assigning the data processing function.		Mr. Anthony goes into the policy, research, and reason-for-being behind Small Business Administration's publications — all designed for management progress	
Professor Hattery emphasizes the importance of properly assigning the data processing function.	Organ	nizing for Data Processing Systems by Lowell H. Hattery	2
The Executive Director's Commentary		Professor Hattery emphasizes the importance of properly assigning the data	
The Executive Director's Commentary			
The Executive Director's Commentary			
The Baccatte Director & Commentary	The E	xecutive Director's Commentary	2

University Division News



"Through research, discussion, publications and other appropriate means, to conduct and promote scientific study of the principles governing organized effort in industrial and economic life . . . for the general betterment of society . . "—SAN CONSTITUTION.

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S.A.M. Salute to Small Business

Surveys have repeatedly shown that one of the significant facets of the American dream is to be your own boss. To be your own boss means to be either self-employed or better still to have your own business and to employ others. Moreover, this dream only incidentally involves the idea of making more money by being an employer rather than an employe. It has to do, to a substantial degree, with the opportunity of being creative and seeing your own ideas carried through to completion.

Surprisingly, it is a dream that is not confined to the average employe. A comprehensive study* supported by the Ford Foundation reported that in a survey of Harvard Business School alumni "more than one-third of those graduating during 1922-25 had become owner-managers, and more than one-half of all reporting alumni were associated with firms having fewer than 1,000 employes." Stanford Business School alumni showed 44% in firms under 1,000 and 25% in firms with 100 and fewer employes. This is true despite the fact that these schools are largely oriented to the development of professional management for the larger corporations.

Including farmers who are also small businessmen, an estimated 20,000,000 of the 65,000,000 working population are on their own. We are overwhelmed in our thinking by bigness in government, business, labor, and the farm bloc. Yet, according to the Small Business Administration, some seven or more millions are in medium and small business and sole proprietorships. Yet there is little or nothing in the curricula of the elementary or the high schools or even in the colleges which would prepare this large segment of our population for the vicissitudes and satisfactions of being on your own. But, the small businessman has no national representative voice in government, on the campuses, or even in the trade associations where he often represents the dominant element in the membership.

Research, education, and services are aimed primarily at big business, big labor, big government, and big agriculture. Here the research programs run into billions. Agriculture, for instance, is given close to \$280,000,000 for research, primarily for the more efficient production of food and fibers, although no effective answers for the conversion and distribution of these surpluses on an organized basis has been found.

Two years ago the Small Business Administration received an appropriation of \$2,000,000 for research, and this program was carried out for two years. The third year the research grant was cut off. By law, this research grant was scattered among the 50 states and territories but with no comprehensive research program covering the role of small business as a whole in our national economy.

To date, small business has never been able to develop a representative national organization which would give voice to the powerful role it plays in our national economy.

The American image abroad is likewise pictured as a big business economy. When we went into Europe and into other underdeveloped economies managers in these countries were astonished at the tremendous role played by small business in the American economy. They now are attempting to imitate us in this area.

*Gordon, Robert Aaron, and Howell, James Edwin. Higher Education for Business. New York: Columbia University Press, 1959.

What is badly needed is not so much a legislative representative of small business but a national organization with state subsidiaries to foster research and education in our public schools and to create a balance between the outlays, both private and governmental, which go to other segments of our economy, such as agriculture, the various transportation services, urban development, and so forth. The foundations, for instance, have given generously to medicine and our school system and even to research into the higher education for business. But in all these areas the small enterpriser and the small entrepreneur is given only passing appraisal.

What is needed first is research into the role of small business as one of the foundations of our free enterprise system and secondly how we can upgrade this role so as to reduce the 15,000 failures per year which represent not only losses to those who fail but to competitors who have had to meet the impossible conditions these failures frequently create before they fail. Even those most cynical about small business, and these include both the liberal and conservative elements in our economy, could at least agree that it would be worthwhile to find out whether small business has any right to exist. It would also be worthwhile to find out to what degree that small business not only helps to create profit for the larger corporations, but even would jeopardize the existence of big business as we know it.

The SAM, which has spearheaded research and education in the management process since its inception, has taken the first step in its sponsorship of small business affiliates, such as the Council of Independent Managers—SAM, Milwaukee.

Here the exploratory process into these small business problems is taking place on a self-help basis at the grass roots level. From these efforts may come the basis for a program of research, self-education, and services to small business everywhere in the land. It is hoped that here may be found, as in the past, that "tall oaks from little acorns grow," and that we need to learn how better to sprout the acorns and nurture the growing tree.

P. N. Ekholm

NATIONAL VICE-PRESIDENT FOR SMALL BUSINESS

*Gordon, Robert Aaron, and Howell, James Edwin. Higher Education for Business. New York: Columbia University Press, 1959.

The Small Businessman —Ubiquitous Pariah

by

Karl Bostrom

Satisfying rewards
vs. jackpot illusions
for independent enterprisers

FROM THE President of the United States down to our humblest citizen we are provided for, kept going, and serviced by small businessmen, seen and unseen.

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Depending upon your definition, there are some 20,000,000 of these free enterprisers and innovators in our economy. They include some 12,000,000 farmers and 8,000,000 self employed, including small proprietorship and small and medium-sized businessmen in manufacturing distribution, and the service industries. Their employed number many additional millions.

The president of the Monumental Motors Corporation would hesitate to take an afternoon's drive if there were not servicemen along the road to repair his car or fill his gasoling tank. His huge plants would quickly grind to a halt without the thousands of suppliers who provide needs ranging from tools and dies to sweeping compounds and brushes. His merchandising efforts would become enormously costly and unwieldy if he placed all his dealers on the company payrol and had to carry out the myriad of supporting advertising and selling services throughout his far-flung automobile distribution network.

The dean of the Graduate School for Corporate Leadership includes very little in his curriculum on the far-flung activities of small business. His curriculum is geared to the assumption that what is good for big business management should be good for small business management, which is not necessarily so. 1, 3 This, despite the fact that a large segment of his graduates will end up either as employed or heads of medium- and small-sized businesses. 2 But the dean's life, too, is surrounded and supported by small





businessmen from window washers to TV repairmen.

The head of the All-American Confederation of Labor Unions lives and breathes big government, big business, and industry-wide contracts. Yet he too will call in a small businessman, probably a local plumber, to repair his dishwasher or unplug the drains.

The Chairman of the National Basic Research Foundation is deeply concerned that more government research money should move into basic research in the social sciences. Such research will probably be funneled to the anthropology of African tribes and the social organization of Peruvian Indians, but the social organization in which his laundryman is involved with other small laundrymen is not for him.

The same is true for the research programming approved by the head of the Billion Bucks Foundation which has moved untold millions into the problems of individual and group behavior and the concept of freedom. Yet the preservation of the freedom to innovate and initiate by some 8,000,000 small businessmen is not half so interesting as the intricate hierarchal arrangement of a huge corporation, or foreign affairs, labor unions, and the hundred great books.

This is altogether surprising, because almost every foundation has received its funds from men who started as small entrepreneurs and businessmen. Each foundation, of course, will subsidize the writing of a definitive history of their small businessman-founder and his rise to fortune, but the connection is seldom made between the illustrious founder and the small businessmen living today.

There is one other economic and political system in which the small businessman is a pariah, but he is no longer

ubiquitous. He has been liquidated, although there is evidence that the urge to be independent in one's work is permitted some freedom in order to supplement with small services those needs which the great State Trusts somehow cannot encompass. In the Communist economy he was called a kulak, and the Chinese presumably have their own name for the man who wants to be on his own.

Our own ubiquitous pariah, of course, is not totally ignored. There just are too many of him. There is or was a Special Cabinet Committee on Small Business. Also, fortunately, there continue to be Select Committees in both the House and the Senate so that his complaints may be heard. As a consequence of these Congressional activities, there was first set up a multi-million dollar revolving fund for loans to small business, although this is not a soil bank or parity program but substantially a hard-nosed lending agency and logically so. You just don't subsidize small business. The loan fund did not, however, permit easy access to the equity market. This defect apparently will be corrected with the Small Business Investment Act. In fact, Professor Neil H. Jacoby, Dean of the Graduate School of Business Administration, University of California at Los Angeles, believes it may become the fourth great force in the country's money system.

Outside of these activities, \$2,000,000 in research grants were provided by the SBA for two separate years. Agricultural research grants and services, like Ol' Man River, kept rolling along, but the \$2,000,000 grant was shut off in the third year. In addition, the SBA Management Counseling Division remained thinly supported but nevertheless has developed a content-rich pamphlet service which in time should answer every conceivable problem faced by the small businessman, if he is a reader. This, plus the gradual development of training programs, may prove much more valuable than the revolving loan division.

Both political parties, of course, usually make passing reference to the needs of small business in their platforms. The appointments to the new Cabinet last December did not highlight the importance of small business in our national economy, but the importance of the Labor, Commerce, Agriculture, and Interior posts in the Cabinet were the subject of heavy publicity build-ups.

This is a curious phenomenon, but it correlates with the tremendous publicity, including articles and even books, on the subject of whether or not "business" should actively participate in politics. "Business" here is largely, of course,



Karl Bostrom hails from Milwaukee. His activities have been centered on City, State and Federal governments and politics, concluding as labor editor of the New York Post. He joined the Bostrom Corporation in 1942. Member of Natural Resources Advisory Committee, Small Business Administration and Charter and Board Member, Council of Independent Managers, SAM.

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the "middle management" of big business. Such organizations as the National Association of Manufacturers and the United States Chamber of Commerce whose memberships are predominantly small- or medium-sized businesses, developed programs in this area, and these were heavily participated in by the so-called middle management groups in the larger companies.

Business has always, of course, been in politics. The heads of our largest corporations have always played an open and influential role, financially and otherwise, in the legislative process, but the new "business in politics" program was aimed at the grass roots ward and precinct level to counter the labor unions.

Small business has always been active at the grass roots level, although not necessarily in identifiable roles as party members. But on the State and local levels and particularly in the smaller towns and cities the local banker, contractor, manufacturer, wholesaler, retailer, and serviceman have consistently played roles and indicated in various ways who was and was not favored for election. But this information seldom seeps through the corporate walls where operations research is in full bloom.

It is a curious commentary that the NAM, for instance, has no standing committee on small business and that the United States Chamber of Commerce, whose membership of 750,000 is overwhelmingly in the small business area, makes no regular report or evaluation of small business activities as such, although agriculture is carefully scrutinized each month. The U. S. Chamber's excellent magazine, *The Nation's Business*, is filled with articles which can be used with value by small business, but its orientation is to "business administration" and not to the owner-managed small business and proprietorship.

Fortune magazine, which was founded and remains heavily oriented toward big business and its juicy "corporate image" advertising carries quite naturally the survey of the 500 largest corporations. To be included in the "500" is not only entry into Mecca but the "Arafat" of American

capitalist power. Fortune does include in each issue two three, or four biographies of small business enterprises, but this probably bodes no good for the morale of "middle management", many of whom yearn to be "independent". That is all despite the fact that the health of small business is vastly important to its big advertisers.

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The American Management Association has produced one excellent book titled *Management for the Smaller Company* edited by Elizabeth Marting, but this work too suffer from our over-all lack of research and studies on the *moduli vivendi* and activities of the owner-managed and independent enterpriser.

None of this, of course, is too surprising, because most of our communication network, whether it is TV or the book publishing house, the *Wall Street Journal*, or the financial page of the local newspaper, finds little or not glamour in the role and function of the small businessman. The glamour is usually centered on the movements of department heads up and down the organizational ladder, although there has been some effort in a few local newspapers a featuring the founding and operation of small business enterprise in weekly biographical sketches.

There are, of course, hundreds of trade magazines aimed at specialized activities and needs, but there is no single national publication concerned with small business compared with the national farm journals such as the Farm Journal (circ. 3,119,000), Successful Farming (1,325,000), and Farm & Ranch - Southern Agriculturist (1,304,000). The farmer even has a counterpart of Fortune magazine in Farm Quarterly (229,420), and the consultants to the farmers also have County Agents Directory and Reference Book, an annual (3,192).

The political liberals, Galbraith, Samuelson, Rossiter, et al., are more or less sold on corporate size, preferably regulated by government. The intellectual conservatives on the other hand move in an aura of high-level abstractions dealing with natural law, freedom, liberty, and the private enterprise system, but which leaves one with the feeling that they are talking more about the Great Atlantic & Pacific Teal Company than the corner grocer.

Any book on economics, whether by a liberal or a conservative professor, usually gives the "big" picture which again reflects preoccupation with the big operations and only passing reference to the seven or eight million small enterprises in the economy. And, when they write about free enterprise, they are talking about Adam Smith and the 19th century.

Even our high school texts in economics and commerce deal primarily with bigness and not with the future role that many of the students will play in small private enterprise. The result is that the teaching of commercial subjects is slanted toward employe vocations such as typing, book-keeping, commercial law, and the tax collecting and spending operations of state and federal governments. The fact that many small businessmen earn as much and often more than most corporate officers, even with pension checks and stock options, is never mentioned.

There are excellent books for small children telling how the baker bakes his bread, how the service station operates

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and how the supermarket receives its supplies. But that these ie two. enterprises involve money or represent a way for innovation and financial independence is left unsaid. This fact of life never reactes the boy and girl who are inundated with commercials of local merchants between ten-minute bites of a B movie. The great shows and the spectaculars are sponsored by the large corporations who are primarily oduced creating a national image for their organizations and their products. Consequently, the viewer can be only irritated by the interruptions of the small enterpriser and local merchant and be thankful for the program of the national and international corporations.

On TV and in the mass media the impression is left that almost all inventions and innovations, whether in management, selling, production, processing, or final products, are the creative work of the great research laboratories or the management staffs of the large corporations.

The fact is that very much of the innovation that we see is a consequence of individual men and often very small businesses. The individual's role has once again been demonstrated in the electronic and plastics industries. How important this role has been in the past was well covered in a recent book called The Sources of Invention by John Jewkes, David Sawers, and Richard Stillerman, published by St. 'Martin's Press.

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It would seem that first we need to discover and dramatize the complex and ubiquitous role of the small businessman and the absolute need to preserve his function if we are to maintain a free and open society. That the job of the small businessman is complex is recognized.4 What is lacking is a solid foundation of research at least comparable to the work in large administrative management.

We also need to show that the small businessman is playing vital roles in church affairs, local chambers of commerce and trade associations, in service clubs, and in all the multitudinous civic areas whether his business is grinding feed at a local mill for farmers or manufacturing electronic components for our space missiles.

But, he needs help from all areas of our economy so that he can become more effective, not only in his role as a businessman, but in his role as a citizen. His role needs to be discovered by our educators so that in the earliest grades a child will know the meaning of our economy and the role that his father, either as a worker or as a small businessman, is playing in keeping our country great.

The question of bigness in business organizations is really beside the point. Bigness is bad only when bigness exercises power to the disadvantage of the efficiency of our economy as a whole, fails to achieve the values of mass production and distribution, or stifles the innovating capacity of its thousands of creative people in and outside its organizations and the vast research centers.

Neither our social psychologists or political economists, who are concerned with the viability of our free society, nor the large corporations are aware of the innovating role and the low-cost services provided by small business as a whole, because no person or agency is making a continuous

evaluation of these factors.

It would appear obvious, however, that these innovating factors exist generally and on a large scale in all areas of business operations or how else explain the continual mergers and acquisitions by the larger corporations? This rise and fall of activity in mergers and acquisitions need not be decried. They are an important factor in our economy and should be regarded as our system of cross-fertilization which has been going on in man's affairs since one tribe merged with another tribe.

Our children certainly should know about the problems and methods of small business for so many of them will also become either owners or employees of small business. Our political leaders likewise need to learn through the collection of statistics, the tax income which small business is producing, and to develop some relationship between that tax produced and the services which should properly be provided for the small free enterprise.

Government plays two roles in relationship to him. The small businessman must collect a great proportion of our taxes, as well as pay his own personal and/or corporate income tax. Government also spends millions in regulating small business, sometimes without too much concern over the unnecessary hardships which such regulations create.

We have moved from an agricultural economy in the past 75 years to a predominantly urban economy, and it is time to recognize this fact. The research and management programs under the Small Business Administration are a good start, but they hardly compare with the enormous statistical services and other governmental supporting agencies and finances for our big brothers in the economy.5

There is need to bring our thinking about small business into balance. It is at least conceivable that this vast innovating sector in our economy is one of the fundamental weapons in our so-called "competitive co-existence" with the Communist world, because their planning and initiation of services and products essentially begin at the top whereas ours comes from the top, from below, and from within all segments of the economy. In other words, the existence of small business and its millions of free individual innovators and enterprisers is what really makes us different in our production economy from Soviet Communism and not much else.

^{1.} Frank C. Pierson and others, The Education of American Businessmen New York: McGraw-Hill Book Company, Inc., 1959, p. 94.

^{3.} U.S., Congress, House, Select Committee on Small Business, Subcommittee #1 Hearings, Organization and Operation of the Small Business Administration, 86th Congress, 1st Session, p. 214.

^{4.} Pierson and others, pp. 98-99.

Byron T. Shaw, Administrator, Agricultural Research Service, U.S. Department of Agriculture, stated that agricultural research today involves 13,000 scientists on 14,700 projects supported by \$238,000,000. The Annals of The American Academy of Political and Social Science, "Perspectives on Government and Science," Volume 327, January, 1960, p. 95. This compares with the \$4,000,000 for two years (cut off the third year) for research by maybe 200 persons on 100 projects relating to problems of small business. The amount is too small and is limited to \$40,000 grants to 50 states. No massive research on the problems of small business appear in the offing.

Small Management Obstacles in Small Firms

by Edward Wisnewsky

"After all, if we are unclear about what it is we are really seeking, no advances in analytical technique whatsoever are going to help us very much."

-M. W. Hoag*

ON THE surface it would appear that managers of small manufacturing firms would profit substantially from more association with experts in scientific management. In recent years there has been a decided increase in the effort to bring about such exposure. But, it seems to me, that such programs often suffer from the lack of definition of goals as well as from a superficial insight into the nature of smaller firms.¹

It is true that about 50% of the failures in manufacturing during 1958 involved firms with an age of five years or less, and the major cause for such failure as given by Dun & Bradstreet is described as: incompetence in management. But it cannot be assumed that this situation can be best corrected by attempts to promote a wider use of the established principles of scientific management through descriptions of applications.

There are at least three obstacles in the way of extending the understanding of scientific management to this group which must be seriously taken into account in creating any "education" program. Each has its special effect.

First there is the general opinion that scientific management, particularly as exemplified by the interest of SAM groups, is primarily oriented toward production processes and those features of the internal organizational structure allied to such processes. This is the obstacle which Harold F. Smiddy challenges SAM members to overcome.²

Second there is an assumption on the part of managers of small manufacturing plants that sales activity is a separate function with a corollary that orders are exclusively the result of personal efforts of salesmen. To put this second obstacle in another way: managers often hold that orders are obtained by salesmen who are "good" and who are

"working"—and that a shortage of orders is to be attributed to the personal failings of the salesmen involved.

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The turnover rate in salesmen when orders drop off is indicative of the general managerial approach. Here we also meet with the technical problem of whether sales input can actually be measured accurately in terms of short-term outputs reflected in orders. Writers on marketing point out that such an attitude is present in larger organizations as well

Finally, there is a reluctance on the part of those men engaged in applying advanced management principles to discuss objectively the consequences of such application to suppliers, many of whom are small manufacturing firms.

The first of these obstacles is strengthened by the fact that many small manufacturing plants do have excellent production capabilities as was made evident in World War II. production. This is not surprising. A 1944 survey of the National Opinion Research Center for the Committee for Economic Development revealed that about 25% of the owners of small companies came from the ranks of non-salaried employees in similar manufacturing concerns. These men have a basic interest in production efficiency; their plants demonstrate this. In fact, often they have been technically over-developed in relation to the volume of work involved and their financial resources.

In developing a program for this group of managers it is important to remember that inefficient methods rank very low as a cause of business failure in manufacturing. The manager knows he needs little help in this area, and as a

^{*} Quoted by Renato Tagiuri: Research in Executive Selection: Some Needed Directions of Effort, Advanced Management, June 1959.



result thinks scientific management offers nothing for him. This semantic difficulty can be overcome, indeed it will disappear, if the other obstacles to be discussed are overcome.

The second obstacle is due to what I am convinced is the major shortcoming of most small manufacturing organizations, that is a reliance upon an obsolete marketing concept. A marketing concept which seems to be shared by men whose business experience is primarily production oriented but which is also evidenced by those whose sales experience is limited to soliciting direct orders from customers. Such a background is sometimes found in owner-managers of small manufacturing plants also.³

The marketing concept in common use tends to regard sales activity exclusively in terms of orders rather than in terms of a marketing program—a marketing program which generates orders whose characteristics can be predicted. This is a potent obstacle to the extension of scientific management to small firms—especially to the assimilation of modern notions of planning and control developed under the sponsorship of the Controllers Institute of America and recently discussed in the pages of this magazine.⁴

It is not too much to say that the sales policy of most small manufacturers can be characterized as a hunt for orders and not as the harvest of orders. If orders are thought of as the food stuff of the organization, small manufacturers

Edward Wisnewsky hails from Milwaukee. He is Executive Vice President of the Gleason Steel Corporation and a member of the executive board, Council of Independent Managers, SAM Milwaukee. He is, in addition, a prolific writer and has made several fine contributions to Advanced Management and other business journals. are often in a "hunting economy" rather than a "planting and harvest" economy. This picture portrays the kind of chase after orders, the kind of feast or famine situation which is typical of the history of many smaller manufacturing firms.

This rather primitive concept of marketing is responsible for the wide use of the term "lack of sales" as an explanation for poor earnings or even business failure. The Dun & Bradstreet report *The Failure Record Through 1958* indicates that the *apparent cause* given for failure is in the majority of cases lack of sales. It may well be that the main evidence of managerial incompetence lies in the use of this notion (lack of sales) as a diagnostic element by managers of small firms.

The writer has found that many owners interested in selling their enterprises also use the term, lack of sales, to define the major problem facing their organization. The implication that a more aggressive sales staff is all that is wanting to correct this organizational defect almost always follows. The belief in the efficacy of aggressive hunting of orders is responsible also for ill-advised acquisitions and mergers, not always limited to just small firms.

Lack of sales is an ambiguous term, as it stands it has no methodological value. It might mean a condition in which profit margins are at the root of the trouble. It might mean that the productive capacity of the plant is not being reasonably utilized, or that management optimism in investment policy is the fault. In one case the solution may have to proceed along lines which determine the price levels in the market place, in another case a concept of market share may need to be invoked. In some instances changes in operating methods, or policies, may be fruitful; in others there is no answer but changing the products offered.

What is obviously required in order to provide more effective management performance and to guide an intelligent merger and acquisition policy for small manufacturers is an examination of what this "lack of sales" term might

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really mean. In particular, it is necessary to demonstrate that the proper and profitable course to be followed is not necessarily in the direction of more sales, or in intensifying the kind of sales training or table pounding intended to improve the salesman as a kind of predator. Quite often, the favored sales training approach is exposure of men, in a highly emotionally charged environment, to the peptalk of the successful Big Hunter.

This last has much resemblance to the communication bias of managers of smaller firms. Such managers regard the role of communication as a factor in motivation as more important than its role as an instrument in the control and direction of organizational processes.

Thus, it seems, that the approach to scientific management ought to start with a demonstration of what can be predicted if more sales were obtained from existing accounts. Such a beginning would force the manager to examine his underlying assumptions, a necessary preliminary to the development of effective rational management.

The prediction of outcomes must include more than financial results, although this is necessary. What is required in addition is the determination of the probable effect of more volume on the actions of customers who increase their buying!

This last factor is of unique importance to the small manufacturer. It might even be used in management theory to differentiate this group of manufacturers from others. In general, this problem is not an important element in the decision complex presented to the manager of larger manufacturing organizations. Unfortunately, it is mainly ignored in current management literature as a result.

The importance of this factor for small firms can be made quite clear. For example, the small manufacturer selling to a regional market made up of other manufacturers might discover that if his sales volume increases, the customer he serves may decide to make rather than buy. He may also find out that if his volume goes up, his larger suppliers might decide to go into competition with him. The small manufacturer selling to wholesalers or mass distributors can discover that if his volume rises he might come under considerable pressure to drop prices. In either case cited, more sales can generate, rather than solve, problems.

Can such consequences be predicted? In so far as they are the result of policies and practices arising out of advanced management rationale the answer is yes and within rather close limits. Certainly then, the information about the "make or buy" strategy of large firms is a necessary element for the planning of sales strategy for the small manufacturer.

Obviously such a manufacturer does not need to know how to apply such a rationale to his own organization, but he does need to anticipate what will happen when both his customers and those of his competitors apply it. It is only in this way that the small manufacturer can, in the words of Ralph J. Cordiner, "see with some clarity and confidence the needs of tomorrow and beyond tomorrow." It is primarily by the action of such customers that the nature and extent of the market-place and the condition of competitors is shaped.

We can now see what aspect of advanced management theory is of particular importance to the manager of the small firm. It is that aspect which determines the behavior of large firms in making decisions as to "make or buy decisions as to abandonment of product lines, decisions at to marketing emphasis. All of these necessarily affect both the short-range and long-range marketing potentials for the smaller firm. They do more than this in that they demonstrate the need for a well-thought-out strategy for marketing opportunism.

We now come to the last of the three obstacles being discussed as blocking the wider use of scientific management principles by small manufacturers. We have established that the small firm needs an interpretation of the effects of advanced management theory as applied by larger organizations. Yet, it is precisely in this area that there is a lact of study and a lack of discussion which can be easily communicated to the small manufacturer.

There is a touchy matter involved here since most large firms are reluctant to contribute anything which might seen to be fuel to the controversy about the impact of the internal practices of large firms on the survival of small firms. In many discussions it is apparent that representatives of large firms are defensive in this matter.

Yet, if the manager of the smaller firm is to create an intelligent marketing policy linked to modern marketing concepts, this issue must be faced. Without some usable insight into the effect of such practices, and their possible future evolution, the small manufacturing manager is unable to penetrate to the meaning of "lack of sales" for his firm. Without this much he is unable to anticipate the rational acts of his competitors and develop intelligent plans.

It appears, therefore, that the development of a rational management theory for smaller manufacturing organizations must wait for the creation of a technique for predicting the behavior of large organizations. Such a technique, it seems could most easily be developed by studies in our schools of business sponsored by grants from the Small Business Administration.

Work in this field, I feel, should be encouraged by all persons interested in the advancement of management and particularly should meet with the support of managers of smaller manufacturing firms. Its completion would remove what is probably the most serious obstacle to the extension of advanced management practices to small business enterprises.

Not only would this serve to open the road for a more rational management, but it could well provide the stimulus for effective participation, among small business owners, in the development of useful management theory.

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Making Small Business Grow

By Wilmar F. Bernthal and John T. Doutt

 $T_{a\ new\ business\ venture\ is\ heady\ stuff\ indeed.}^{\ HE\ CLIMATE\ of\ novelty\ and\ anticipation\ that\ permeates}$ would be unfair judgment to condemn the entrepreneur at this point, with money and energy committed to problems of survival, for the sins of omission that may mark him a few years later. But once it is established that a new manufacturing enterprise will survive - no modest achievement in itself — the entrepreneur must address himself to problems of growth. For some it appears that "new money" is a critical point, while for others the assessment and appraisal of unproven strategies for market penetration require attention. But regardless of the divergent nature of these initial problems, there comes to all businesses a critical juncture in their life cycle when they must solve the same problem: organizing for growth.

It is well accepted that when the business grows to over 100 employees the methods and procedures used in a small business must be resurveyed, and new practices based on an understanding of business fundamentals must be applied. The venture now differs from the "shade-tree shop" where the presence of the owner-operator himself transcends all activities and gives both meaning and motivation to the work that is done.

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Few there are that would not give lip service to this statement, but the fact of the matter is that there are a great number of shops that are "muddling through" their growth patterns. In still other cases solutions to organizational problems are worked out in the heat of an emotional explosion which has been permitted to build up to the place where some change (sometimes just change for the purpose of showing good intention) has got to be made. At this point, judgment is pressured. The results are arrangements that are artificial at best and a series of compromising concessions at worst. It can hardly be viewed as organizing

This juncture is without question one of the most critical

Academy of Management.

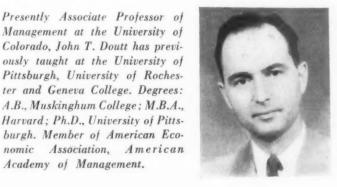
in the growth cycle of the enterprise. Once it is understood and dealt with intelligently the step from medium-size to large-size operation is relatively simple.

We are concerned, then, with the following issues:

- 1. Why do some small manufacturers grow effortlessly while others level off for periods of time on what appear to be fruitless plateaus?
- 2. Why do some businesses find it easy to break through growth stages from level to level while other enterprises proceed only after a series of internal crises and a "showdown" that tries to clarify new arrangements in what has become an emotionally charged atmosphere?
- 3. How can the owner-operator be approached in situations where he is in part responsible for the deterioration that precedes these growth crises?
- 4. Can the experience of successful companies be so stated and adapted as to be useful to enterprises that are experiencing difficulty in the problems of growth?

The Romance: Entrepreneur and Product

The kinds of problems we are discussing here appear most commonly in enterprises that have been started by a man with an idea and in which, before long, the man is completely enamoured with the idea. Businesses that have been inherited have probably come through this early stage of romance, although doubtless it was a part of the early life of the enterprise. Businesses that have been started as a subsidiary of a larger parent concern may never experience this stage at all. But in the "American-tradition" situation which is really not uncommon today, one finds a man with an idea and he is absorbed with the notion of doing something with it. In all likelihood, he hopes to make money with it, but evidence suggests that in many cases he would continue with the business whether it was very



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profitable or not. This is certainly one significant clue to the nature of the problem we are dealing with here: the entrepreneur does not always concern himself with the maximizing of profits as such.

In the early days of the business, it is clear that there is nothing more important than perfecting the product or process and making it suitable for markets that are believed to exist. And for the man with the idea, the entrepreneur, it often appears that this becomes an end in itself. He is seldom satisfied until he has eliminated the "bugs" that prevent it from being operational and if possible superior to anything then on the market.

This obsession with the product is a demanding task and leaves little time for consideration of some of the broader growth problems of the business. It is, however, the priceless ingredient that makes the entrepreneur give of himself to the point where the venture is "off the ground" and ready for further development. Without this element of absorption, without this attitude of dedication, the enterprise would never amount to much more than a hobby in the view of the founder, and it is doubtful if the economic community would ever take it any more seriously than he does.

The focus in these early days is clear: mechanical problems must be solved; design ideas must be worked with; adaptations that will make the product acceptable must be imagined; technical assistance on the product must be obtained where the entrepreneur is not sure of himself; experiments must be conducted to find out the capabilities and capacities of the product or process.

The Entrepreneur: Enemy of Organization

At this point, two ideas seem clear:

- a. An involvement and absorption with the product or process and an attitude of "gamesmanship" seem essential if the venture is to progress.
- b. This initial stage of absorption and gamesmanship has virtually nothing to do with the application of business fundamentals as they must later be employed if the concern is to grow.

This is the stage at which many small manufacturers find themselves. The need for any change in patterns of conduct is not at all clear to the owner-operator of the business. To him, it is still the garage type shop that he started in the recent past. Are not most of the people he hired still with him? He may have added a business manager and some other people who tend to specialize on some aspect of the company's operations, but the essential relationships are still much the same between the owneroperator and the key people he brought in to help him. Herein rests a second significant clue to the nature of the problem: those whom the entrepreneur has hired himself are not regarded as part of an organization system. They are simply business associates that help do what has to be done at the plant. They are not expected to make policy, nor seriously to innovate systems and procedures. Rather, they are employed to carry out, in the tradition of the entrepreneur and his firm, the performance of necessary details for which the entrepreneur himself no longer finds the time or interest. In an organization sense, they form a cluster of "assistants to" the key man, rather than rei managers in a chain of command.

Even if the entrepreneur places lieutenants into a position designated as middle management, seemingly to form chain of command in the traditional organization pattern he seldom assumes that he, too, should be bound by this formal chain of command. To the contrary, he feels he neglecting his true entrepreneurial role if he "loses touch with his operative people. As a consequence, he continue to exercise full freedom to choose when to observe the chain of command or to bypass so-called middle managers. He may go so far as to structure an organization on paper, and thus pay homage to the scientific management concept, but his actions continue to demonstrate that he is not about to capitulate to the restrictions of such an organization.

This gives us a third clue to the nature of the problem of the small manufacturer. This clue has already been grasped by some entrepreneurs who have reflected on the confusion and uncertainty that their subordinates and "business friends" claim exists. It is simply this: any system or procedure that would solve the problems of confusion and uncertainty would tend to limit their own freedom of action in the business. This they are not about to give up. To say that they are enjoying themselves at the expense of their business colleagues is to miss the point. To say that the are selfish is irrelevant. Was it not their energy that provided these jobs in the first place? Is not the business as it now stands a tribute to the service motives of the entrepreneur! The charge of selfishness would bewilder and offend.

Toward Organization Without Regimentation

Having stated the nature of the problem, we have not yet solved it. About the most we can say thus far is that it is apparent why our present-day approach is futile. To attempt to superimpose a "system" on the spirit of gamesmanship that has characterized the early stages of the business and to limit the personality of the entrepreneur himself with a "bunch of rules" is to leave the business worse off than it was before. This is not to say that the solution does not begin in certain arrangements understood by all which tend to reduce chaos to disorder. There are indeed some management principles that must be understood and some business fundamentals that must be accepted, but a great deal of spade work must precede these things. The application of "school solutions" to dynamic situations of this sort is likely to be the first and last contact of the small businessman with the stuff known as "scientific management". He will not soon pass this way again.

We must begin, then, with the problem where it is: the entrepreneur himself. Up to this point, he has regarded the venture as his "baby", his brainchild, his game, his reason for living. Now he must see it as an on-going enterprise. with or without him at the helm. In some cases, this change in viewpoint comes as the result of a shock: the death of a partner, the heart attack of a business acquaintance, or even the failing health of the entrepreneur himself. Rarely does it result from the clear observations and considered rationale of the owner-operator himself. But the major thesis of these observations here is that it can be brought

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But those encouraging this reflection and observing it develop must realize that change when it does come may by this not appear to be decisive or very great. The enterpriser will, for a long time, know better than what he does. The business will not overnight be organized for autonomous operation. It will continue to be plagued by his incessant "mothering" of some activities and complete ignoring of others. He may ers. He continue to open the mail, and sort it himself. He may continue to check on all purchase requisitions. He may insist ept, but on personally "firing up" the furnaces which he considers to be an essential part of the business operation. For many men, these are control points, and to deprive them of these functions would not only deprive them of a "feel" for the organization but might result in a less effective operation of the concern. Thus even for a rational owner-operator, usiness the impulse to be the maverick is still strong. Yet when he realizes the costs, immediate and potential, of excessive indulgence in this impulse, he is likely to direct his romance of individualism into activities that are less incompatible with reasonable organization and growth.

Inability or unwillingness to move toward systemic organization results in costs that are real and potentially ruinous. Within the organization these costs manifest themselves through such symptoms as inability to attract qualified management people, and progressive frustration, indifference, or general disinvolvement of those members of the firm who see the need to get things done but consider the possibility of improvement rather hopeless. It is the tragedy here that the very virtues of the subordinate under the old entrepreneurial system — those of loyalty, dependency, and obedience — become the Achilles' heel of an expanding organization that demands originality, creativity, and reasonable independence in middle managers.

Profiting By the Experience of Others

There is no single way of approaching the problem of the entrepreneur, but it is suggested here that a few guides based on the experience of others can be stated. These should enable the enterpriser to judge for himself when his organization needs realignment and to know just where the trouble spots are. A careful study of the following eight points should help him in identifying his role in the structure he has created and in assessing the areas needing attention.

- 1. Where do you think the company will be ten years from now? How did you arrive at these conclusions? What provision have you made to get there?
- 2. Have you ever asked the key men in your operation where they think the company will be ten years from now? Do they all seem to agree? This reveals something about you. Wherein do they disagree? This reveals something about them.
- 3. What is the nature of the "in-group" that dominates your day to day operations? (If you are any size at all, there is one. It's just that you probably did not

- create it). What skills and abilities are represented in it? Which ones are not? What does this suggest to you by way of clear channel communication?
- 4. When you leave town for a week, who takes over? Do your colleagues in the company understand the nature of this temporary relationship?
- 5. Do you think you have a management team? Do your men know not only what is expected of them individually but how to tackle a job cooperatively?
- 6. Does any one man in the group seem to be the only person to whom you can turn to get things done? (There is nothing like a weak or absorbed chief to encourage empire building. Have you been too long involved in the technical aspects of the operation?)
- 7. Have you ever asked the men in your company what they think their job is? Have you then checked their answers for areas of overlap and uncertainty? How does it check with your notion of what they were
- 8. What do you expect from your Board of Directors? Are they capable of giving the organization direction? Are they in any way beholden to the internal politics of your company?

The New Romance: Management of Men

The nature of the problem on which we have focused here is quite serious. Inability of the entrepreneur to view himself and his role in an expanding company which he himself started can be one of the chief deterrents to growth. The combination of talents required to start a business and then make it grow are unusual indeed. Annals of American business are filled with tragic experiences of those who lacked this rare combination of gifts.

The most difficult decision that will face the entrepreneur will be the unhappy one of delegation. What are the "bottleneck" areas in the operation in which the entrepreneur himself may be weak, and in which organization and delegation are most urgently needed? To whom shall delegation be given and how much must be given? To a trusted and capable subordinate who has been long with the company, and carefully coached, much can be given. To the relative newcomer, various control devices must be set up to assure some continuity and cohesiveness of the operation. It is suggested that skill in control is really the paramount issue here. To minimize the danger of uncertainty and remorse that may result from reckless delegation, adequate reporting and control measures must be established simultaneously.

The excitement that comes from engaging in the management of a growing enterprise is no less real than that which comes to the entrepreneur in the fascinating days of early development. But it is of a different character and dimension. Now, much of the day-to-day satisfaction comes from the realization of orderly growth and the knowledge that the enterpriser is building for the future. The Chinese have a proverb to the effect that if one is thinking in terms of a year, he should cultivate flowers; if he is thinking in terms of ten years, he should cultivate trees; but if he is thinking in terms of one hundred years, he should cultivate men. Here, then, is the new romance for the entrepreneur.

New Management Practices for the



By David E. Olsson

M ANY TOP executives of small businesses who are sincerely interested in improving their operations, may well ask a basic question: "How can my small organization put into practice some of the new theories and techniques which are generally developed by and directed toward the large company?" Those with whom I have talked seem to have faced this same question as we have at San Jose Hospital. The fact that our organizations are in different industries, does not make the basic problem dissimilar.

From our management journals come many articles on good management. Included are references to other pertinent articles and books. Each of these recommends others. It seems that once we are convinced of the need for improvement, we can find more material than it is humanly possible to use. Selecting the best reference from an article or book

is a difficulty. We cannot cover everything, and although our need may be apparent, the way we may best fill it is not always discernible.

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A Case Example

Five years ago, we at San Jose Hospital realized that the size of our operation would soon be increased by more than fifty percent. This increase in the number of people and variety of problems caused us to begin "looking for answers." The fact that it took us five years to find and use the answers is the reason for writing this article. It need not have taken that long to arrive at our present level of understanding.

Our first step in approaching the problem of better management was to take random sorties into the pile of articles and books that we had acquired as a result of our investigations. We seemed to believe, almost unconsciously, that it was only a matter of time until our hand would grasp the "Golden Key" to our management-improvement problems. Of course, many "keys" were found, all generally good, but difficult to apply to our specific situation.

As a result of the fresh ideas discovered in this reading, we instigated a number of new activities. These were activities that could have improved our management practices, but since they were generally not integrated with our operational methods, they could not be fully utilized. The people involved seemed to be glad when "school was out" and they could "get back to work." In retrospect, I cannot blame them.

After a year or so of "home-made" training programs for various levels of administration, we recognized that a better way to gain results was to begin our management improvement efforts with top-management personnel. Unless the need for self-improvement was "bought" at the top, we could not expect to have a lower level acceptance of the need. Selected individuals were sent to management programs with the hope that they would receive "managerial enlightenment". In almost every case, these people returned fired-up with enthusiasm for the changes they were going to make in our organization. We were often disappointed when these anticipated results did not meet our full expectations. Also, the individual usually returned to a desk piled high with unanswered correspondence and to other problems that needed immediate attention. His seminar notebook or briefcase was put aside, and when eventually excavated, his fire of enthusiasm had almost died out.

We next tried sending people in pairs, with the hope that they would encourage and stimulate one another and not

ADVANCED MANAGEMENT

or the Small Organization

only learn more, but be better able to bring home new ideas to the rest of us. This "double teaming" did help, but the results still did not meet our expectations.

Our next step was to attempt to tailor-make programs to fit our particular situation. We engaged outside experts to help us conduct series of seminars and lectures on new and different management practices. These helped somewhat, but since the sessions were not a part of our regular activities and the subject matter moved so rapidly, we were always unable to translate any significant amount of the material into current practice.

It would be erroneous to say that nothing was accomplished through these developmental activities - our management practices and attitudes did improve, although not as much as we desired. It was easy to conclude that the theories we had learned were good for discussion, but not really very practical. Furthermore, upon looking around, we found that we were doing as well as many other small organizations in discovering and assimilating new management techniques and concepts.

A New Point of View

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Then one day, almost by chance, we met an old friend - a professor from a local university — who provided us with a means of moving closer to our goal of putting good management theory into practice. At his suggestion, we began to meet once a month to discuss certain selected reading. This outside help seemed to facilitate the selection and interpretation of written material and foster its application to our situation. Through these discussions, we found ourselves, in the interim, considering a variety of practical applications. Before the first year was up, we were trying out some of these ideas that were most compatible. Without extensive programming, these concepts were becoming a part of our operating system.

One of these early projects was to consider the question, "Just who is our customer?" Everyone knew that the pa-

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journals.

tient was our customer . . . just as the paint company knew that the man of the house bought the paint and did the painting; but as some paint firms have discovered, the obvious is not always the truth. The wife usually gets the re-decorating idea, selects the colors and is, hence, more "the customer" than is the husband. So, in our case, we began to realize that doctors and relatives are as much our customers as the patient. Just thinking through this "obvious" fact had its effect on our activities. As a result, we started a new approach for determining customer satisfaction. Today, a continuous customer-opinion survey tells us how we are doing. Periodically, we compare patients' opinions with similar opinions obtained from our "other customers."

Our "Ideas" Came from a Variety of Sources

Peter F. Drucker is a strong exponent of clearly-stated and defined goals and objectives. He has stressed the continuing importance to an organization in raising and considering such questions as, "What is our business?"—"What should it be?"-"What are the objectives of our business?"* The answers to these questions for San Jose Hospital proved to be a challenging, though difficult, educational experience. After several years of periodically reviewing and refining the stated objectives for our organization as a whole and for its major components, we have developed some real understandings, not only among our top-management people, but throughout the organization. We are now in a position to permit an individual at the working level to identify his job goals and expected results with the institution's over-all objectives. This not only fosters "management by objectives", but performance by objectives. At no time do we consider a statement of written objectives as a finished product — these are reviewed and re-written periodically — the reviewed and revised process itself has a tremendous re-educational value.

Chester I. Barnard was one of the first executives to realize that "Authority is the character of a communication . . . by virtue of which it is accepted by a . . . member of the organization as governing the action he contributes;"** that is, that real authority lies with the subordinate — it does not reside in "persons of authority" or those who issue orders. These ideas were useful in clarifying working relationships between all levels of management and their subordinates. After many discussions involving all supervisory

* See Peter F. Drucker, The Practice of Management, Harper and Brothers, New York, pp. 49-62.

** Chester I. Barnard, The Functions of the Executive, Harvard University Press, 1938, pp. 163.

people as to the meaning and application of authority, our managers realized that they were not there merely "to issue orders," but, rather, to guide and assist the subordinates in their achievement of job goals and results.

Wendell Johnson has convinced us that written objectives and goals must not be too vague. Through this work, we began to realize that we could not ask people to achieve results that we could neither define nor measure; in a sense, we were asking them to answer a question when we asked them to do something. He explained to us, "There cannot be a precise answer to a vague question."* He further showed us that we would only frustrate workers with such abstractions as "treating the whole patient." In an effort to inspire through high-sounding objectives, we could, in reality, set into process the "idealism — frustration — demoralization"** cycle.

Reporting Results of Our Efforts

In addition to establishing definable goals that would mean the same thing to most people, we realized that we must provide people with the kind of information that



would tell them how well they were doing in relation to these goals and, if possible, give them the means to measure their own performance. In our personal experience, this had a direct parallel in the Air Corps during World War II., where there was a statistical control service which would produce reports that not only told the higher echelons what was going on, but become a self-appraisal tool for work level units in making day-to-day decisions. This was further confirmed by Peter Drucker's point that "to be able to control his own performance, a manager needs to know more than what his goals are. He must be able to measure his performance and results against the goal . . . Each manager should have the information he needs to measure his own performance, and should receive it soon enough to make any changes necessary for the desired results . . . It should be the means of self-control, not a tool of control from above."† In a sense, we were doing what Mill suggests in his essay on "Liberty"-we were developing "the greatest dissemination of power consistent with efficiency" while providing "the greatest possible centralization of information and diffusion of it from the center . . . " \ddagger

It was from these kinds of basic thoughts that our achievement reports developed. As payroll is our biggest expense item (70% of total expenses), our two-week payroll period became the basic time interval for our reporting system. Biweekly, the operating departments receive information on the acceptability rating of the services they render as reflected in the continuous customer opinion surveys. In the light of established departmental goals, we are able to identify functions that show progress or lack of it. For example, we realize that two indices of good management are the frequency of accidents or errors, so we log and report these activities. Then, since salary ranges are established outside of the department, we chose to report hours worked, overtime, sick leave, and only those items for which there can be departmental control. Throughout, we have kept to a minimum the number of indices the department head needs to watch. Each department manager realized that the choice of an item reported to him is based on its significance to the success or nonsuccess of his department; that only those results that he can control within his department are reported to him. The measuring device needs to be brief, pertinent, and serve as a balance among the goals of the department. The report should indicate apparent results and be useful for establishing or refining future goals. Information gained should be used at all levels as a supplement to, but never as a replacement for, managerial judgment. We now know that prompt reporting of results permits prompt action within departments. Departmental results are reported to respective department heads four days after the end of each pay period. It is obvious that setting standards soon became an important activity. This process is still going on and will never be entirely completed. As a part of this "management by objectives and self-control," we have found that department heads now begin to take more interest in the staff functions that serve them (such as the personnel functions).

The transition from "rule-of-thumb," traditional management to "modern management" has not been easy. We have found that a department head's supervisor had to help him most in the areas of planning, coordinating, and controlling; or in other words, in basic functions of management. Assistant Administrators, who are analogous to "group vice presidents" in a large corporation, now think of themselves as assistants to their respective department heads. Each echelon in the organization has begun to realize that the management job exists because there are people for whose results the manager is responsible, and not the other way around.

The "Management System"

Effective management requires consistent application of recognized methods and adherence to a system of management practices.

Publishers, pp. 131.

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^{*} Wendell Johnson, People in Quandaries, Harper and Brothers, Publishers, pp. 17.

^{**} Ibid, pp. 14. † Peter F. Drucker, *Practice of Management*, Harper and Brothers,

[‡] John Stuart Mill, On Liberty and Considerations on Representative Government, Basil Blackwell, Publisher, 1948, pp. 102.

San Jose Hospital is managed and controlled by its objectives. It is imperative that those who manage operating units understand the objectives and goals of the Hospital in general and those specific to their departments, and continually strive to communicate these objectives to these neople they must assist within their Departments.

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To enable people in the department to perform their tasks skillfully, leadership and direction must be provided by department heads. Various administrative positions have been established to support and guide department heads in the achievement of departmental goals and in relating these to Hospital objectives.

Our management system involves the establishment and periodic review, evaluation, adjustment, and modification of each of the following items:

- 1. A statement of the functions the hospital is expected to perform (these are reviewed formally by the management committee each six months).
- 2. The delineation of the attainable goals for the hospital as a whole (these are reviewed formally by the management committee each six months).
- 3. The formulation of long-term, attainable goals for each department (these are reviewed by the department head with his assistant administrator each six months).
- 4. The determination of short-term, attainable goals for each department (the project section of the Management Program Plan for each department is revised each six months by the department head with his assistant administrator).
- 5. The establishment of standards of performance for each department (Departmental Achievement Reports are brought up-to-date and distributed to the departments each two weeks).
- The setting of Standards of Performance for each job (A performance review with each person, based on the goals, standards, and achievements for his job, is conducted annually).

The above system, implemented by the Management Program Plan, with its long-term and short-term goals, is the key to effective management throughout San Jose Hospital.

"The Proof of the Pudding . . ."

What are the results of these efforts?

First and foremost, we have improved our "customer satisfaction," (our product). During our expansion period when one would normally expect economic difficulties due to the unpredictability of volume, we were able to control expenses and avert deficit financing. This was accomplished through statistical reporting, dynamic planning, and bringing in the supervisors to share in the solving of problems. Through the wide acceptance of organization objectives and the recognition of common problems, departmental supervisors controlled expenses much more effectively than could have been done via executive decree. Many new ideas



and short-cuts have come to us from all levels. Safety records are greatly improved. The fact that over 96% of San Jose Hospital people give to the United Fund, indicates good morale and speaks well of the general spirit of the organization. Department heads understand and accept "management by objectives" in day-to-day activities and decisions. We have few crisis situations of the kind so common in many organizations and which were our common lot in the past.

Most of originally-tried, less productive, attempts at improvement of management, such as sending people to institutes and home-made programs, have been re-instituted and made much more productive and worthwhile; also, the professor is still around — he still brings us new books to read and new ideas for contemplation. He is a person on whom many of the department heads sound out new projects, or with whom they discuss problems before bringing them to the attention of higher administration. They view him as a staff assistant "without portfolio" and without authority; he has no axe to grind. The professor once asked me if I could tell him how small organizations could put good management theory into practice. I told him I would think about it and tell him. This paper is my answer - those responsible for results in an enterprise must develop what they see as a good and enlightened philosophy; they must develop a system that is compatible with that philosophy; and, most important of all, they must live with the system and the philosophy which they have developed.

Humanizing Relationships in a Small Business

the relation between the leader's behavior and his empathy toward subordinates

> Edwin A. Fleishman assisted by James A. Salter¹

Edwin A. Fleishman, Associate Professor of Industrial Administration and Psychology, Yale University. Known for his International Harvester studies of leadership and supervisory training. Received Ph.D. from Ohio State University. Books published: "Leadership and Supervision in Industry" and "Psychology and Human Performance."



THE ABILITY to perceive accurately the attitudes and opinions of others would appear to be an important aspect of supervisory leadership. At least we find an increasing emphasis in various management development programs on "sensitivity training", which is aimed at improving this kind of interpersonal skill.

A critical aspect of interpersonal skill is the ability to put oneself in another's place and to predic't what he will feel or do in a given situation. The term "empathy" has sometimes been applied to this ability. Whether or not this actually represents a personality trait of some kind has not yet been established. For this we would need to show that a person high in empathy in one situation e.g., on the job) is also high in others (e.g., with his wife). Be that as it may, it is still important that some supervisors appear to show more insight into their subordinates' attitudes than do other supervisors in the same situation.

But how do supervisors high in empathy differ from those low in empathy in their actual behavior on the job? Can we detect differences in the leadership patterns exhibited by those individuals who turn out to be more sensitive to the feelings and responses of their subordinates? If so, what kind of leadership is most characteristic of the "empathic" or more "sensitive" supervisor? This piece describes one study which attempted to provide, at least, some preliminary data on these questions.

PROCEDURE

The Organizational Setting

The study focused on the relationship between departmental supervisors and their subordinates in two small business organizations on the Yale campus. In both organizations the supervisors are college seniors, while the subordinates are predominantly sophomores. Both organizations are set up in a similar manner, organizationally, in the sense that subordinates are competing among themselves for the limited number of managerial positions that will be vacated by the graduating seniors. By the nature of things, the groups were quite homogeneous in terms of age, intelligence, and socio-economic background. Thirty-six people were involved in this study, including twelve supervisors and 24 subordinates. While the number is not large, these individuals represent practically all the supervisors at these levels in these particular organizations.

The Research Instruments

A key problem in this study was to develop a reliable measure of the supervisor's empathy toward his subordinates' feelings, attitudes, and responses. The approach used was a straightforward operational approach. Each supervisor was asked to name the two subordinates in his department whom he considered least like each other. Then he was asked to fill out Self Description Questionnaires as he thought each of these subordinates would fill it out. In other words, he was required to predict the responses of one subordinate on the questionnaire, and then he predicted the responses of the other subordinate on an identical questionnaire. The questionnaire used was adapted from

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THE EMPATHY MEASURE The same questionnaire was later administered to each of the two subordinates named by each supervisor. They were instructed to fill out the questionnaire on themselves. The questionnaires contained 100 statements describing preferences, attitudes, etc. These statements were arranged in 20 groups of five statements each. Some typical items were as follows:

For each block of 5 statements check the one most like Then check the one statement among those 5 which you feel is least like you.

Most

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		Most	Least
	I try to put up a good front.		
b)	I get upset when people criticize		
	me.	-	
c)	I keep to myself so that I'll keep out of trouble.		
d)	I work hard to help others get		
	what they want.		
e)	I go out of my way to make		
	friends.	-	-
a)	I pride myself on being intelligent.		
b)	I'm interested in how to make a		
	lot of money.		
c)	I can often be very sarcastic.		
d)	I believe what others do is their		
	own business.		
e)	I like to be in charge of others.	-	
a)	I find it easy to understand what		
	others are trying to tell me.		_
b)	People think I am a hard worker.		
c)	I don't mind losing my temper when provoked.		
d)	I like people who don't worry about me.		
e)	People often look to me for lead-		
	ership.	-	

In each group the subordinate checked the one statement "most like" himself as well as the one statement "least like" himself. The supervisor, of course, filled it out as eliable he thought his subordinate would. If the supervisor's pren used diction within a given item grouping corresponded to the subordinate's self-description, this was counted toward his empathy score. For our present purposes, the more correct predictions the higher his empathy score. Then

LEADER BEHAVIOR MEASURES The next step was to obtain measures of each supervisor's leader behavior pattern. The instrument used for this purpose was the Supervisory Behavior Description questionnaire described elsewhere³. This questionnaire contains 48 items and measures two

primary dimensions of leader behavior called Consideration and Initiation of Structure4.

- a) Consideration includes behavior indicating mutual trust, respect, and a certain warmth and rapport between the supervisor and his group. This does not mean that this dimension reflects a superficial "pat-on-the-back-", "first-name-calling-" kind of human relations behavior. The meaning of this dimension goes more deeply into respect for the individual and includes such behavior as allowing subordinates more participation in decision making.
- and b) Initiation of Structure includes behavior in which the supervisor organizes and defines group activities and his relation to the group. Thus, he defines the role he expects each member to assume, plans ahead, establishes ways of getting things done, and pushes for production.

Examples of items in the questionnaire are:

He tries out new ideas in the group. always — often — occasionally — seldom never -

He refuses to give in when people disagree with him always — often — occasionally — seldom -

He sees that a person is rewarded for a job well done. always — often — occasionally — seldom —

Scores on these two dimensions are uncorrelated with one another. That is, supervisors may be high on Consideration and still be either high or low on the Structure dimension; and vice versa. They are not opposite poles of the same dimension as has been erroneously reported elsewhere5.

The reliability and utility of this questionnaire in a large variety of leadership-group situations has been presented elsewhere⁶. The subordinates in the present study used the questionnaires to describe their own supervisors.

RESULTS

Adequacy of the Research Instruments

First, let us take a brief look at the usefulness of the measures as used in the present study.

THE SUPERVISORY BEHAVIOR DESCRIPTION With respect to the leader behavior measures, we mentioned that previous research has demonstrated them to have high reliabilities. In the present study, we checked the degree to which different subordinates agreed in their perceptions of their supervisor's behavior. This is especially important since each supervisor named two subordinates he considered "least like each other" and we obtained our description of him from them. Correlations between the two descriptions obtained for each supervisor were .90 for Structure and .73 for Consideration. This indicates a high degree of agreement among the descriptions of the same supervisors obtained from different subordinates. It was also found that the correlation between Consideration and Structure was not statistically significant (r = .23). Thus, subordinates tended to perceive these as independent leadership behavior patterns and not as opposed patterns (although, of course, they did not know how the items were to be scored). Similarly, this low correlation indicates the absence of any biasing "halo effect" general to how subordinates checked the items. This "halo" is very difficult to remove from rating forms, but we have been successful in removing it from this questionnaire. All of these findings confirm the objectivity of the descriptions obtained by means of the Supervisory Behavior Description.

Another finding relates to the mean Consideration and Structure score obtained for these supervisors. The mean Consideration score was found to be 75.8 (where 112 is maximum) and the mean score on Structure was 44.5 (where 80 is maximum). These means fall exactly at the averages obtained from a larger sample of 100 middle management executives previously studied, where these executives represented a cross-section of American industry. This gives us some idea that our relatively small group of supervisors did not show atypical leader behavior patterns, but conformed closely to data from industrial organizations.

THE EMPATHY MEASURE The empathy measure used was found to be reliable when analyzed by the odd-even, split-half method (reliability = .70). Also, subordinates who were more accurate in predicting responses for one subordinate tended to be more accurate in predicting for the other subordinate. Thus, there is some evidence for consistency in this trait within particular individuals in this job situation.

We must point out that the measure of "empathy" used has limitations8. For example, it is possible that some supervisors may tend to pick more typical responses; that is, they may pick those responses that most people in the population pick. If this is true, then supervisors who do this are more likely to be right in predicting other people's responses on this basis alone. On a statistical basis, this would be true even if they never met the other person. This was checked in the present instance by tabulating the frequency with which each choice was made by the total sample. We could then get a measure of each supervisor's "typicality" by rescoring his paper according to the following system: He got a score of 1 for each choice that was the most typical of the group, down to a score of 5 for choices he made which were least typical. We then checked these results against the prediction responses made by the different supervisors. The point of relevance here is that supervisors were as often correct in their predictions when they deviated from the norm as when they approached the norm. Also, supervisors did not find it significantly easier to predict the responses of the more "typical" of their two subordinates. Thus, the tendency for some supervisors to pick more "typical" responses did not affect our empathy measure9.

Relation Between Empathy and Leader Behavior

But how is "empathy", thus defined, related to the descriptions of leader behavior? The results showed that the supervisor's empathy score was significantly related to his

Consideration behavior (r = .40). The correlation between the empathy measure and Structuring behavior was not statistically significant.

An inspection of the items in the Consideration scale indicates that those high in this pattern engage in more reciprocal, two-way communication with subordinates. The Consideration scale is loaded with items such as "He is easy to understand," "He is friendly and can be easily approached," or "He refuses to explain his actions (scored negatively)". It is possible that the high empathy leader engaged in activity which created a certain "climate" and rapport with subordinates which brought him more general information about the kind of person the subordinate was This would make possible more accurate predictions of subordinates' responses over a wider range of situations

Concluding Comment

This study is part of a larger program which is attempting to relate supervisory behavior patterns to various indices of effectiveness. The present study, of course, needs to be repeated in other organizations with larger samples. However, our results are suggestive and point up the fruitfulness of focusing on measures of supervisory behavior on the job. There is a need to tie down many of the vague concepts, now in fashion in management development, to actual supervisory behavior. Concepts like empathy, self-awareness, and social sensitivity can only be useful if they can be related to things supervisors do. It would appear, for example, that management training programs should include information about what kinds of behavior distinguish more sensitive managers from less sensitive managers on the job.

- This study was carried out while the second author was at Yale University.
- See Fred E. Fiedler, Leader Attitudes and Group Effectiveness. University Illinois Press, Urbana, Illinois, 1958.
- See Edwin A. Fleishman, "The Description of Supervisory Behavior,"
 Journal of Applied Psychology, 1953, 36, 1-6; Edwin A. Fleishman.
 "A Leader Behavior Description for Industry," in Ralph M. Stogdill and Alvin E. Coons (Editors), *Leader Behavior: Its Description and Measurement*, Ohio State University, Bureau of Business Research.
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- 4. The questionnaire is available from the first author.
- Kenneth R. Andrews, "Is Management Training Effective?", Havard Business Review, 1957, 35, 63-72.
- 6. For examples of how these have been used to evaluate training effectiveness see Edwin A. Fleishman, "Leadership Climate, Human Relations Training, and Supervisory Behavior," Personnel Psychology, 1953, 6, 205-222; Edwin A. Fleishman, Edwin F. Harris and Harold E. Burtt, Leadership and Supervision in Industry, Ohio State University, Bureau of Educational Research, 1955; and Edwin F. Harris and Edwin A. Fleishman, "Human Relations Training and the Stability of Leadership Patterns," Journal of Applied Psychology, 1955, 39, 20-25.
- See Edwin A. Fleishman, The Supervisory Behavior Description, Yale University, New Haven, 1958.
- For a critical review of this and other problems in measuring social perception see Lee J. Cronbach, "Processes Affecting Scores on 'Understanding of Others' and 'Assumed Similarity'," Psychological Bulletin, 1955, 52, 177-193.
- 9. For readers more familiar with the literature on social perception measures, it may be relevant to point out that we obtained measures of "assumed similarity". This is a measure of the extent to which the supervisor "projects" his own attitudes in his prediction of his subordinates' attitudes. These measures did not correlate with the "empathy" measure in the present instance.

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S. B. A.
Services
for Small Business

A native of Boston, Edward L. Anthony received his B.A. from Harvard in 1943 and his M.B.A. from the same university in 1952. He is chief, Management Methods Division of the Small Business Administration, in Washington D. C.



by Edward L. Anthony, II.

W HAT MAKES some concerns succeed where others fail? Obviously, there are many contributing causes. Frequently, however, it is lack of information that spells the difference between profit and loss for a business.

Background of Publishing Program

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Lack of information on new, up-to-date methods of management hampers the progress of many small businesses. In other instances, it deprives newcomers to the business community of a firm foundation of facts essential for a successful start.

Establishing and operating a small concern are far more complex today than they were, say, a generation ago. This is due to the increasing complexity of the American economy. Today, the small business owner or manager needs a broad range of administrative skills if he is to compete successfully with other, bigger establishments.

Unlike big concerns, he is not able to hire expensive consultants or employ specialists on management methods in his own firm. Often, their well-earned fees are beyond his capacity to pay. Nevertheless, for the health of the economy, small concerns should not be condemned to compete on the basis of unreliable hit-or-miss methods of management. That's where the Small Business Adminstration enters the picture.

Through various activities, including its publishing program, the Agency tries to provide the help which small business concerns cannot obtain elsewhere. And it does so because the Nation's 4 million small business concerns are vital to its economy, both in peacetime and time of emergency.

Traditionally, small business has been a trailblazer in the field of commercial innovations. It has had to be. To compete with bigger concerns for the customer's dollar, it has had to combat the big organization and big advertising budget with ingenuity and inventiveness. It has had to specialize. It has had to offer unique services. It has had to carve out a niche of its own in its own field.

This makes urgent and imperative the need for well-informed owners and managers. To strengthen them is one of the SBA's prime functions. But the Small Business Administration does not try to run a person's business.

It seeks only to help the small business community to help itself.

Publications Policy

One practical approach to helping small firms help themselves is a publications program. Although the idea of publishing material for businessmen is not new, the Small Business Administration has approached it in a novel fashion. Briefly, SBA-produced publications set out to —

- Stress general, top-management problems of interest to a broad cross-section of owners and operators;
 - Include only original material, not reprints; and
- Be a medium through which experts in many fields can advise small business concerns on problems they face.

Publications Series

The Agency issues nine different series of management publications. They are leaflets — usually four pages in length — short booklets, and full-length books. The three best-known series are the brief, 4-page Aids: (1) Management Aids for Small Manufacturers, (2) Small Marketers Aids, and (3) Technical Aids for Small Manufacturers.

All three leaflets series aim their contents at the top men in small business concerns. The first two series concentrate, respectively, on administrative executives in factories and on managers of retail, wholesale, and service firms. The third is intended for top technical men in small concerns. (Of course, in many firms the administrative and technical officials are one and the same; in others there may be technical specialists to supervise part of the company's operations. But whatever their titles, they are the ones for whom the Technical Aids are intended.)

To make clear the difference in the three Aids' contents and approach, here are a few titles that are typical of the subjects each series discusses: *Management Aids*—"Using Deferred Compensation in Small Business," "Surveying and Controlling Executive Time," "Exporting for Profit;" *Marketers Aids*— "Are You Kidding Yourself About Your Profits?," "Appraising the Market for the Services You Offer," "Sales Promotion Pointers for Small Retailers;" *Technical Aids*— "Metal Powder Uses in the Small Plant," "Increase Production With Ceramic Cutting Tools," "Point-

MARCH, 1961

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ers on In-Plant Trucking."

- (4) Aids Annuals. Every year, Aids published 2 years earlier are compiled into Annuals, with each Aids series being printed in separate booklets. Thus, all material originally issued in leaflet form subsequently is made available to the public in lasting reference publications. These are sold at nominal prices by the Superintendent of Documents, Washington 25, D. C.
- (5) Management Research Summaries. These are individual, free leaflets. In format they look a good deal like the Aids. The length is four letter-size pages. Summaries present, in layman's language, the main findings and techniques of scholarly research into various small business management problems. They summarize longer reports which give full details on methodology, results, and conclusions. The research projects discussed are sponsored by SBA and carried out by educational and State institutions. Funds are provided by SBA under its Small Business Management Research Grants program. The Summaries are designed to give small firm owners and operators a quick picture of what was learned without having to study the long, technical reports. Indicative of the variety of subjects are the following titles: "How Urban Renewal Projects Affect Small Business," "Profit Control in Automobile Retailing," "Small Plant Turnover and Failure," and "The Squeeze-Out in Small Business Ownership."
- (6) Small Business Bulletins. These are individual free leaflets which include bibliographies devoted to individual types of businesses. Representative titles include "Jewelry Retailing," "House-to-House Selling," "Bookstore Operation," "Handicrafts and Home Products for Profit," and "Home Businesses."
- (7) Small Business Management Series. These booklets are devoted to more comprehensive discussions of special management problems in small concerns. They are sold by the Superintendent of Documents at nominal prices. More than two dozen such volumes have been published. Some typical titles are A Handbook of Small Business Finance, Ratio Analysis for Small Business, Cost Accounting for Small Manufacturers, and Guides for Profit Planning.
- (8) Starting and Managing Series. This series of booklets differs from most of the other SBA publications in that each volume describes the problems of starting and managing a specific type of enterprise. The single exception to this is the basic booklet in the series, Starting and Managing a Small Business of Your Own. The second volume in the series is Starting and Managing a Small Credit Bureau and Collection Service; the third deals with Starting and Managing a Service Station. These booklets, too, are sold by the Superintendent of Documents.
- (9) Small Business Research Series. The sphere of interest of this series is independent, higher level, academic investigations of small business management. Attention centers, typically, on studies made in connection with doctoral degrees, or faculty research projects. The material is designed to have primary appeal to the various classes of specialists who study and help small businesses. Among these are educators, consultants, trade associations, ac-

countants, lawyers, trade publications editors, bankers, and others such as customer-supplier relations executives in big companies, and Government counselors. Because of SBA responsibility to those groups, we believe it desirable to include in these publications not only the findings of research, but also the procedures and techniques used Broadly speaking, this series presents complete reports, not summarized highlights or popularized condensations. Volume 1 is titled Cash Planning in Small Manufacturing Companies; volume 2 is called The First Two Years: Small Firms Survival and Growth Problems.

Goal of SBA's Publications

The all-important aim of the Small Business Administration's management publications is to inform prospective and established small business operators about effective methods of management. For the newcomer to succeed in business, and for the oldtimer to withstand competition both must move with the times. And moving with the times means that small business owners and other small firm officials must know about and be able to perform the same management functions which strengthen the larger establishments — even though, in a small concern, each executive must handle several functions.

Because 90 percent of all business failures are due to managerial shortcomings, including lack of experience, SBA publications are edited primarily for small business owners and managers. And, since balanced management is the big need in small business, regardless of type of enterprise, the chief concern of the Agency's publications is with problems of practical interest to large cross sections of management. Moreover, because businessmen want information that is easy to understand and apply, the publications present facts and figures in brief, readable, nontechnical form.

What the publications are designed to do is simply this: Provide an insight — for those who wish to avail themselves of it — into the management problems they will face if they become their own bosses . . . or to learn about methods that will benefit them in their existing operations.

Evidence that SBA's management publications have been successful in providing that kind of useful information can be found in their scope and distribution. In less than a decade some 350 titles have been produced in 28 functional management areas ranging from accounting through financial management and marketing research to warehousing. Nearly 10 million copies of the publications have been requested or purchased by businessmen and others.

Lists of What's Available

Anyone wanting more details on what is available in the various series should ask for SBA's two free lists: (1) "Management and Technical Publications" — Form 115A; (2) "For Sale Booklets" — Form 115B. These lists may be obtained from any of the Agency's 55 field offices or from the Small Business Administration, Washington 25, D. C. They include both the full range of titles and ordering instructions.

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Organizing for Data Processing Systems

by Lowell H. Hattery

 $T_{
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m HE~ADMINISTRATOR}$ has a useful store of running rules thousand major computer installations, there is still too little experience to give us tested principles of organization for the relationships of the computer center to other departments and offices.

Assumptions

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At the beginning we must make some basic assumptions. They are not dramatic but they are debatable. Acceptance or denial of them is fundamental to your philosophy of organization for computers.

1) Management-oriented computer centers will increase. It is understandable that the bulge in computer use for management purposes should have lagged behind scientific and engineering usage. Technical problems are ready-made for the computer, management problems are not. At the same time, it is apparent that the burden of management data processing will ultimately force the use of computers to assume much of the work load.

2) The range of management applications for single installations will increase. In present installations, plans and operations are set up, in many cases, for a single major management process such as payroll, inventory, or accounts receivable. The concept of integrated data processing is an ideal not often approached with very serious intent. Intenare becoming more serious however and as one segment of the management information system is manipulated successfully by electronic equipment, interest in other applications becomes greater.

3) Procedures and standards must be adjusted to achieve economic automation. If the old processing steps are converted direct to electronic processing, limitations of the equipment may make the new way even more costly than the old. It is obvious but often overlooked that it isn't the speed of electronic calculation that controls costs — it is the number of steps involved. A major utility gave up a computer, not because computer speed was less than predicted but because the number of passes required was in the order of three times the original estimate.

It should be self-evident that procedural and standards changes deserve first order of attention for economic auto-

matic data processing. If a payroll has 50 possible deductions, as some have, only limited economy can be achieved through good programming and fast equipment. On the other hand, the possibilities of saving through simplifying the deduction pattern are so great that a major administrative campaign to this end is in order. Simplification may be more important to achieve in using Automatic Data Processing Systems than for other methods.

I emphasize this matter of procedures and standards because major changes are possible only with the vigorous and sustained support of top management. Changes are resisted because someone's security is threatened, almost inevitably. Even if security isn't threatened in fact, the fear may exist.

4) More centralization of data reporting and processing is inevitable. We may disregard the issue as to whether authority and decision-making are moving toward centralization. There is no question however that the location of a computer becomes an attraction for data as honey to bees.

In some organizations smaller computers have been placed in decentralized stations. One business executive remarked that the future of the large computer in business was limited — as smaller computers were brought down in sales price these would be placed in decentralized field or plant locations and thus obviate the need for big-capacity central systems. Although there is undoubtedly a substantial market for the small computer, it is my assumption that it will not eliminate the need for and interest in large cen-

Lowell H. Hattery is the Director of the Center for Technology and Administration of the School of Government and Public Administration of the American University, Washington, D. C. He is currently the Administrator for the unit of the Advanced Management course sponsored by the Washington Chapter of S.A.M. He was guest speaker at the Third Inter-American Management Conference held in Mexico City early last month,



-Harris & Ewing

MENT MARCH, 1961

tralized computer operations.

The potential use of small computers lies primarily in two situations: (1) the processing of data which is highly local in nature and of little significance to upper levels of management for decision-making, and (2) preliminary treatment of data before transmission to the central processing system. In neither case is the need for centralized reporting and data processing removed.

Components of Management and Information Systems

The use of computers forces a new look at the management process and the intelligence system that brings the means for rational decision-making. A simplified scheme of actual situations is shown in Figure 1.

			MANAGEMENT PROCE	SS	
(T	op Manag	ement)	(Middle Management)		(Shop Management or equivalent)
1.	PLANS	\longrightarrow	DECISIONS	\longrightarrow	OPERATIONS
11.	REPLAN	\longrightarrow	(NEW INFORMATION) NEW DECISIONS		NEW OPERATIONS
111.			(NEW INFORMATION) NEW DECISIONS	→	NEW OPERATIONS
IV.			(NEW INFORMATION)		NEW OPERATIONS

Fig. 1

At each of three levels of the management process, a different set of managers is involved in control activities:

Top Management: PLANS
Middle Management: DECISIONS
Shop Management OPERATIONS
or equivalent:

At times these levels will fuse and overlap, and sometimes shift from one area of planning, decision-making and operations to another.

New information is a continuous factor. At times new information may be taken into account in revising plans, and at other times for a new decision or series of decisions which are made to execute the plan effectively; or new information may be used only at the lower operational levels to adjust production operations.

Of what use is this scheme? It shows for example that new information may result in alteration of basic plans, which is a concern of top management. And it raises a significant question about Situation IV. — why was this new information only significant for operational adjustments and not to upper levels of management for plans and decisions? And more important, who said so and on what basis? Is there a set of criteria to determine what information is of decentralized significance only? These questions take on added burden when you keep in mind that the plans and decisions are worth nothing unless the operations are effective. Operations are the pay-off — for top management as well as middle management.

For example, a production shop may have a bad batch of materials; or a machine may break down; or one-fourth of the crew may get the flu at the same time. In any of these

24

cases, a schedule must be adjusted. This adjustment would ordinarily take place at the operational levels of management — foreman, assistant shop superintendent — somewhere below middle management. Yet, as a manufacturing vice president said recently — "production scheduling is one of the major components in our cost problems. It is our biggest opportunity for saving."

Rescheduling production is not just a matter of maximum production with available manpower and equipment. It involves subtleties of weighing the importance of priorities of orders, inventories of raw materials, inventories of finished products, and many other factors. As a matter of fact, determination of the best adjustment to the breakdown of a single machine may be a very complex problem. Something less than the optimum operational decision in a single instance may be trivial; but the accumulation of less than the best may be critical.

The point of emphasis is that management clear to the top has a legitimate interest in the management process clear to the bottom. If this be true there must be means for self-information, evaluation, planning and decision-making at the top.

Horizontal Structure of the Management System

The vertical structure of the management process and information flow is illustrated in Figure 1. But the horizontal structure is equally important.

Let us assume the management problem of purchase of raw material inventory: how much, when, from whom, with what conditions of financing? The decision is within the functional responsibility of the purchasing department. Yet to make this decision information far beyond that developed directly by purchasing is needed. Some categories of information with cognizant departments are:

Information Sales forecast	Source Department Sales
Inventory on hand	Warehouse Production
Rate of consumption	Sales
Raw material supply outlook Economic and price outlook	Purchasing {Economic analysis } Purchasing
Leonomic and price outlook	Economic analysis

Critical "decision-information" obviously originates from various sources inside and outside the organization.

Most management decisions involve intelligence from more than one department. Weak or missing information from one department may seriously compromise the quality of a decision.

Maintenance of a flow of usable information and insurance of its availability is, then, a primary responsibility of top management — the criticality of information for decision-making and the trans-departmental nature of infor-

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ADMINISTRATIVE INFORMATION DEPARTMENT

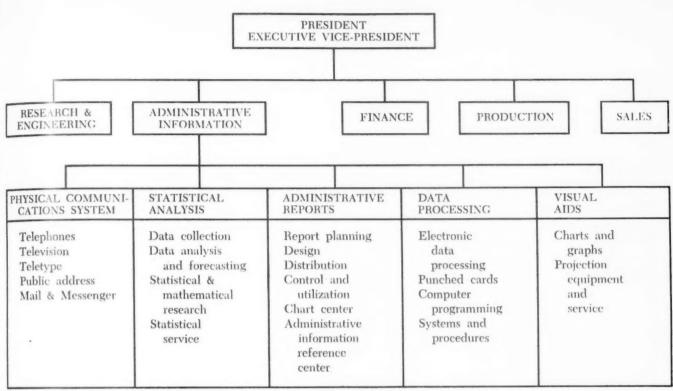


Fig. 2

mation needs puts it clearly into the lap of top management.

This somewhat labored introduction seems necessary to illustrate and support the prim responsibility of top management to involve itself in computer planning and support.

Location of ADPS Responsibility

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Present practice isn't much help as a guide. Often, under present procedure, the computer is placed in the same organizational unit where punched cards are run. This logic is simple and doesn't tax the imagination. It is also a good way to replace an old procedure with a like one only a little faster, and sometimes not even faster. It is a good way to impede progress toward an integrated, vital information system which serves the management process of planning, decision-making and operations. A second common practice is to place the data processing activity within the controller's department, buried at various levels. This action is in accord with the trend for the controller to become increasingly involved in total management, a sort of duplicate executive vice president without formal line responsibility.

We must accept the fact that in our present concept of organization there is no place which can be clearly designated as the most desirable location. Placement of the data processing activity may depend on the personalities and pat-

terns of responsibility in each organization. We have no basis for saying it should almost always be assigned to the Controller, or to any one of several other possible locations.

The important consideration is to place the ADP activity where the orientation is toward an integrated system and service to all departments.

For some organizations there may be merit in forming a new Department of Administrative Information (or Communication) at the vice presidential level. There is no special magic in the name of "information" or "communication." It does seem clear there is a major function which may need to be broken out from traditional patterns to give it sufficient independence, prestige and authority. A suggested assignment and organization of functions is illustrated in Figure 2.1

Summary

Continuous flow of new information serves the management processes of planning, decisions and operations. Introduction of electronic data processing equipment into the information system requires procedural changes of an order that to achieve them successfully the active support of top management must be available. This suggests locating responsibility for the automatic data processing activity at a high level in the organization under the direction of an officer who is interdepartmentally oriented. This officer may be already operating or he may be a newly designated director of administrative information.

¹ For further discussion of this organization proposal, see Lowell H. Hattery, Executive Control & Data Processing (Washington, D. C.: Anderson-Kramer Associates, 1959.) pp. 16-23.

The Executive Director's Commentary



By WALTER MITCHELL, JR.

Why Assist Small Business In Management?

When you joined the Society for the Advancement of Management, you became identified with its purposes. You wanted to improve your personal knowledge and skill in administrative practice.

Now, as a member of a professional organization, you want to elevate and expand knowledge where it would be the most productive to the economy.

You're an Employee of Big Business

Practically all members of SAM are employees of big business concerns. Probably your company has 500 or more employees. On the company records you are classified in the management group. However, you are a specialist in management. As you strive to advance in your company, you must progress in management from the role of a specialist to that of a generalist.

This is a difficult process because of protocol and seniority.

Learning Through Small Business

When traffic is heavy on one route you proceed to your destination by selecting an open road. Your company purchases from and sells to hundreds, perhaps thousands of small business enterprises.

There's an old expression saying the body is helpless without its arms and legs.

These small businesses bring raw materials, processes and parts to your company on one side. On the other hand, they carry the goods to market.

These small businesses engage in innumerable lines of endeavor and many activities. However, to attain their objectives, which are varied, they must manage.

The small businessman rarely uses the word management because he hasn't identified himself with the art. He says, "I'm a farmer," "I'm running a machine shop," "I'm an agent," "I operate a store, a station," or "I'm a service man."

Over one thousand of these small business sources and outlets quit each day. The cause of their business abandonment is weak management. One study reveals that only 12% of the small business enterprises are well managed.

You Learn By Teaching

You will help your company and your community if you will organize a group of SAM members as a team of consultants and instructors in small business administrative management.

S. A. M. Committee Announces . . .

... 1961-'62 National Officer Nominees

HE S.A.M. 1961-62 Nominations Committee, drawing upon suggestions made by the chapters, reported their selections early this year to the Secretary of the Society. Their choices for 1961-62 national officers were the members listed below. The Board of Governors will vote on these nominations at their April 8th meeting.

Chairman of Board: James E. Newsome (Chicago Chapter). Mr. Newsome, who has been active in the Society since 1948, is production manager at Johnson & Johnson. Chicago. Formerly he was with Continental Can Company, and U. S. Steel Corporation. Currently President of S.A.M., he has held the posts of First Vice President and National Secretary, as well as those of President, Executive Vice President, and National Director of the Chicago Chapter.

President: ROBERT B. CURRY (Washington, D.C. Chapter). A past President of the

Washington Chapter, Mr. Curry is currently S.A.M. First Vice President and formerly served as National Treasurer. Before assuming his present position as vice president and comptroller of the Southern Railway System in 1955, he was assistant director of John Hopkins University's Applied Physics Laboratory. He has also served as organizer of the Budget Division of the Office of the Secretary of Defense.

Executive Vice President: FRED E. Has-

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Executive Vice President: FRED E. HAB-RELL (Cleveland Chapter). Mr. Harrell is Chairman of the Board of Skidmore Gear Co., Cleveland. His previous affiliations were Reliance Electric and Engineering Manufacturing Company and the Marquette Division of Curtiss-Wright. He is presently a Chapter Director and he has served as National S.A.M. Treasurer for two years, as Regional Vice President and as chairman of several major committees.

Vice President: J. GORDON CAMPBELL (Montreal Chapter). Mr. Campbell, former Regional Vice President and currently S.A.M. National Treasurer, is secretary-treasurer and a director of Canadian Ingersoll-Rand Company. A member of the Society for 15 years, he has held all of the senior offices in his Chapter.

Vice President: HEZZ STRINGFIELD, JR. (Knoxville Chapter). A former President and National Director of the Knoxville Chapter, Mr. Stringfield has been a member of S.A.M. since 1952 and is presently National Secretary. He holds the position of finance director for the Union Carbide Nuclear Company.

Vice President: EDWARD D. KEMBLE (New York Chapter). While at General Electric Company which he joined in 1949 and where he is now manager — Management Research Service, Mr. Kemble took a major part in the initiation and development of the company's advanced management course at Crotonville, N. Y. Prior to that, he was associated with several companies including Cleveland Graphite-Bronze Company. Delco-Remy and Guide Lamps Division of General Motors, Great A&P Tea Company. Ohio Rubber Company, Armstrong Cord. Company, and Anchor-Hocking Glass Company, and Anchor-Hocking Glass Company.

Vice President: James B. Du Prau (San Francisco Chapter). Mr. Du Prau is currently vice president and assistant to the president of Columbia-Geneva Steel Division of the United States Steel Corporation. Before 1935, he was connected with the American and Foreign Power Company at Rio de Janeiro, Brazil. Earlier, he was associated with the Pacific Telephone and Telegraph Company. He has been a Chapter Director for several years.

Vice President: HENRY J. ARENDS (Chicago Chapter). Operating superintendent for Aldens, Inc., Mr. Arends has been with the company for the past 33 years. He is now President of his Chapter and has seen service as S.A.M. National Director and Regional Vice President for the North Central Region.

There is a great hunger for the knowledge which an SAM group can provide. You will have the chance of learning and practicing administrative management without irritating your superiors.

In fact, they will commend you for improving your supply lines and smoothing and speeding your channels of distribution.

Are you the type?

In seeing this need for your chapter in planning, organizing, controlling and completing you will demonstrate that you have administrative management capacity.

As you approach small businessmen to acquaint them with their management needs, your personal experience will be greatly broadened.

Your powers of persuasion will be exercized and stretched as you convince them they must abandon old, weak methods and adopt new and stronger techniques.

The best course for your development as administrative executive is for you to lead a small business management project for your chapter.

No one need fear that this effort will rob consultants of their livelihood. In Portland, Ore., where the SAM chapter has been rendering "diagnostic consulting" services for small business, the result has been new clients and added business for management, accounting and engineering consultants. The diagnosis, more often than not, shows the need for a specialist to install a system, revise plant layout, develop job evaluation, or to assist in various other techniques.

If you would like, we will send you the pamphlet, "Starting the Small Business Project." It includes suggestions regarding:

1. Those who will help

2. Those who need help

Types of small businesses in a typical community.

This information will be sent to you by L. T. White of Cities Service Co., who is a member of the editorial board of this magazine. Write him in care of ADVANCED MANAGEMENT.

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Management Bookshelf

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THE SCIENTIST IN AMERICAN INDUSTRY, by Dr. Simon Marcson, Princeton University. Published by Industrial Relations Section, Princeton University, 1960.

The scientist is an individualist. What is more attractive to such a person than an environment which permits him to work by himself at problems of his own choosing and with little outside direction? This environment is to be found, and he already has found and experienced it, in our colleges and universities where learning and teaching are an endless cycle of individual actions.

When the scientist, seeking either higher financial rewards or perhaps the peripheral satisfactions that come from having his efforts associated with the product of an industrial organization, leaves the university and takes employment in an industrial research laboratory, he leaves a system which Dr. Marcson refers to in this study as one of "colleague authority" and enters a system where "executive authority" is the traditional way of life. The author devotes considerable attention to the strains created in the organization and in its scientific population resulting from their wanting, in effect, to have their cake and eat it too, and to the complex management problem which this situation produces. The solution, he points out, seems to lie in the proper blending of the principles and concepts of these directly opposed systems of authority (which is easier said than

Actually, this publication should probably have been entitled "THE SCIENTIST IN INDUSTRIAL RESEARCH ORGANIZATIONS," since the author has addressed himself to that particular problem. Being based on a prolonged study of the central research laboratory of one large corporation, no attempt has been made to examine the scientist or the engineer in industrial organizations usually referred to as engineering development laboratories.

Unfortunately, this limitation is not pointed out, nor is attention called to the basic differences that seem to exist between scientists and engineers. Thus, the reader who has not studied the subject may consciously or unconsciously generalize the conclusions which the author draws and apply them to both scientists and engineers in all sorts of technical organizations, which should not be done.

To illustrate my point, one of the major desires of the scientist (in research) is for "self-rule." However, an engineer is a different type person: he usually works as a member of a team on a project with objectives set by management. Thus, he is a great deal more company-oriented and his desire for self-expression usually takes a different form from that of the scientist.

I found the last thirty pages containing the author's interpretation of his findings to be the most interesting and informative part of the publication. In addition, his observations on the goals and needs of scientists are very worth while. The "Dual Ladder" concept of advancement, providing equal status opportunities for the individual contributor



and for the managerial-oriented individual is a need well supported by Dr. Marcson's study

This report, one of a continuing series on the scientist planned by Dr. Frederick Harbison's group, is required reading for those concerned with the management of industrial research laboratories, and, taken in the proper perspective, will be of interest to all those whose efforts are directed toward the full and effective utilization of the capabilities of our Nation's industrial scientific manpower. My only wish is that there was available a companion study on the engineer.

WILLIAM M. HOYT Remington Rand UNIVAC

President Kennedy Lauds S.A.M.-N.Y. Herald Tribune Seminar On New Manpower Technology

Benefits to thousands of workers and young people were foreseen by President John F. Kennedy as an outcome of a workshop-seminar on Success Factor Analysis, a new manpower technology, under the joint sponsorship of S.A.M. (N.Y.C. chapter) and the New York Herald Tribune.

In a telegram from The White House, which was read at the opening of the one-day seminar, Feb. 23, the President said:

PROGRESS IN HELPING PEOPLE USE THEIR HIGHEST SXILLS NOT ONLY HELPS THE INDIVIDUAL WORKER. IT ALSO HELPS OUR ENTIRE COUNTRY.

THE NEW YORK HERALD TRIBUNE AND THE SOCIETY FOR ADVANCEMENT OF MANAGEMENT ARE TO BE COMMENDED FOR SPONSORING A WORKSHOP-SEMINAR ON NEW MANPOWER TECHNOLOGY. SUCH EFFORTS IN THE PAST HAVE BENEFITED THOUSANDS OF WORKERS AND YOUNG PEOPLE IN OUR SOCIETY.

MY BEST WISHES AS YOU BEGIN YOUR IMPORTANT DISCUSSIONS.

JOHN F. KENNEDY

Participating in the seminar were representatives from such corporations and institutions as American Cyanamid, Combustion Engineering Co., Fairleigh Dickinson University, Magnus Chemical Co., National Urban League, The Phelps Stokes Fund, Prentice-Hall Inc., International Business Machines Co., Remington Rand Div. of Sperry-Rand, and Republic Aviation Corp.

According to Seminar Leader Bernard Haldane, retired president of Executive Job Counselors, Inc., Success Factor Analysis is a group of techniques which bring out the best in a person, and help him adapt his capabilities to automation and other changing conditions in business and industry.

A leading economist considers what we can do now about . . .

GROWTH and PROSPERITY WITHOUT INFLATION

John Philip Wernette, The University of Michigan

Just Published! This provocative study focuses on the basic conditions essential to a healthy, forward-moving economy. Taking a balanced view of the factors which shape our economy, the author describes the inter-relationships among productive capacity, actual output, and the price level. The nature, causes, and consequences of inflation, and the policies and actions—both public and private—that can promote stability are analyzed. Book sums up realistically the outlook for solid, prosperous growth. Sponsored by the W. E. Upjohn Institute for Employment Research, 1961.

A PROPER MONETARY and BANKING SYSTEM for the UNITED STATES

Edited by James Washington Bell, Emeritus, Northwestern University, and Walter Earl Spahr, Emeritus, New York University

This challenging book offers a vigorous criticism of our monetary and banking policy and presents a well-reasoned program of reforms. Nine eminent economists searchingly analyze such areas as our monetary standard, coinage system, paper money, bank deposits, and proper supply of the different varieties of money and deposit currency. They concentrate major attention on the use and abuse of the Federal Reserve System and on its relation to the Federal Government and other financial institutions. Prepared under the auspices of the Economists' National Committee on Monetary Policy. 9 Contributors. 1960. 239 pp., Illus. \$6.00

POWER UNLIMITED: The CORRUPTION of UNION LEADERSHIP

Sylvester Petro, New York University School of Law

A top labor law authority sets forth with frightening clarity the betrayal of responsibility by union leadership as revealed in the McClellan Committee hearings. From his page-by-page study of the record, citing case and example, the author weighs the practices of labor leadership against traditional concepts of morality and the ideals of the free economy. In this analysis, Mr. Petro spells out hard-hitting remedies aimed at restoring freedom of individual choice and equity in collective bargaining. "An absorbing and powerful hook."—Henry Hazlitt. 1959. 323 pp. \$5.00

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15 East 26th St., New York 10

MARCH, 1961

University Division News

GET WELL HAROLD!

To Harold Fisher's many friends it should come as good news that he is recovering from his recent illness. So much of his effort and enthusiasm is part of the growing success of our University Division that his widening circle of friends feel a close relationship with Harold and the Division. He has been such an enthusiastic spokesman for our younger management colleagues that we have come to think of him as eternally youthful.

His close proximity to youth, his devoted wife and his many friends have helped to make this image quite real. Thinking young helps one to stay young and Harold's recuperative vigor is dramatic testimony to this: Stay well Harold and let's get back into the spring semester soon.

H.A.S

by Mrs. Harold Fischer

I want to express our sincere appreciation for the many kindnesses shown Professor Fischer while a patient in Children's Hospital. We are especially indebted to Dr. Wayne Bayless and the nurses at the hospital; Mr. Alf Werolin, Vice President Northern California Region SAM, Mr. Walter Mitchell, Executive Director SAM, and Mr. Charles E. Greenland, Manager of the St. Francis Hotel.

And most of all I want to say how grateful I am to SAM'ers everywhere for their messages of cheer and good wishes to Professor Fischer, which have done so much to speed his convalescence.

On the evening of January 19, Professor Fischer spoke to the Los Angeles Senior Chapter on the place of the University Division program in the educational process and the sound development of youth for business. Preceding the meeting he had an opportunity to chat with the faculty advisors and student officers from the Los Angeles Metropolitan area concerning chapter problems and future plans.

At a luncheon meeting on January 23 with George Rathmell, president of the Los Angeles Chapter and Ernest L. Samson, student coordinator of the Senior Chapter, plans were discussed for unifying activity for the colleges and universities of that area.

Unfortunately, Professor Fischer was unable to meet any of the University Chapters in the San Francisco area, as he was taken ill shortly after his arrival.

Mr. Alf E. Werolin, Regional Vice President of the Northern California Region reports renewed interest and activity in the Northern California area.

The University Division pays tribute to and is most appreciative of the excellent cooperation and support of the Senior Chapters in the California area.

The second semester of the current academic year was ushered in with the chartering of a new chapter at the Richmond Professional Institute of William and Mary College, Richmond, Virginia. Thanks to the tireless efforts of the faculty advisor, Professor W. O. Edwards, this new chapter is off to a great start. A warm welcome is extended

COMING EVENTS

March 29, 1961 FOMA meeting
April 6-7, 1961 S.A.M.-A.S.M.E. 161h Annual

Management Engineering Conference, Statler-Hilton Hotel, New York

April 8, 1961

S.A.M. Executive Committee Meeting, Statler-Hilton Hotel New York

May 2-3-4, 1961

13th Annual Conference of the American Society for Personnel Administration. Minneapolis.

May 7-11, 1961

42nd International Conference and International Exposition of the National Office Management Association. Kiel Auditorium, St. Louis, Missouri.

June 23, 1961

S.A.M. Executive Committee Meeting, Indianapolis

September, 1961

First Indo-Pacific Management Conference, Manila (Philippines)

Sept. 10-30, 1961

SAM International Management Seminar abrood Holland, West Germany, Switzerland, Italy, France, Belgium.

Sept. 15 to 25, 1963

3 CIOS, 13th International Management Congress, New York City

to Professor Edwards, James L. Seaborn, President, and the members.

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6th Antival Conference Planned to Assist 5 nall Business Management

The sixia annual conference of the National Council for Small Business Management Development will be held at the University of Delaware, Newark, Delaware on June 26-29, 1961. Theme of the conference is "Extending Management Know-How."

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The Council is composed of leading administrators from industry, government and educational institutions. Its objective is to "stimulate interest in small business management development programs, encourage research in areas pertinent to small business management and to exchange ideas among members."

The purpose of this three-day conference on "helping small business" is to expose NCSBMD's members to the latest techniques used by other educators, large businesses and trade associations to assist Small Business Management.

One of the highpoints of the conference will be an address by the U. S. Small Business Administrator, John B. Horne, whose agency is actively cooperating with NCSBMD.

President of NCSBMD is R. Ralph Bedwell, Director, Small Business Institute, Southern Illinois University. Conference chairman is L. T. White, Director, Business Research and Education, Cities Service Company.

Other committee members are William A. Toomey, New York State School of Industrial and Labor Relations, Cornell University, Dr. Joseph C. Schabaker, University of Wisconsin, Gaines M. Rogers, Wake Forest College, and Wendell Metcalf, Office of Research and Management Assistance, Small Business Administration.

ASME Conference

The Production Engineering Division of the ASME will be conducting its annual division conference in Toronto, Canada from May 9-12, 1961 under the theme "International Cooperation for Productivity". The Conference will be held concurrently with the National Industrial Production Show of Canada.

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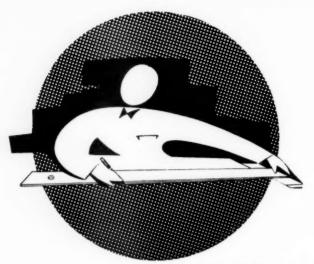
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PRACTICAL DESIGN OF DATA PROCESSING SYSTEMS IN THE 60's

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WHAT MANAGEMENT NEEDS FROM INDUSTRIAL ENGINEERING

Afternoon

MEASUREMENT OF ORGANIZATIONAL EFFECTIVENESS

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